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An unending variety of topics

Monday, August 21, 2006

Psychological pricing and mental transaction costs

A common kind of mental transaction cost is demonstrated by psychological pricing, and in particular the strong tendency to price things at $(X-1).99 instead of $X.00.

As Brian Moore points out, an extra digit is an easy visual way to filter out higher prices:

> If I see the following prices for gas:
>
> .99
> .98
> 1.02
> .89
>
> My brain immediately dismisses the 3rd price, then goes back and looks at the others to find the lowest A seller doesn't want to be eliminated like that.

Furthermore, we save on mental transaction costs by processing the more signicant digits first and often ignoring the rest. That fits our habit of scanning numbers from left to right.

Posted by Nick Szabo at 1:44 PM

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Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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